
FEDERAL ENERGY REGULATORY COMMISSION

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NEWS RELEASE

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CHAIRMAN CITES COMMISSION ACHIEVEMENTS, HIGHLIGHTS FUTURE CHALLENGES IN FIRST STATE OF THE AGENCY REPORT

Chairman James J. Hoecker has issued the Federal Energy Regulatory Commission's first State of the Agency Report, which provides a snapshot of the agency at the end of FY 2000, outlines its achievements, describes the challenges inherent in increasingly competitive energy markets, and describes the priorities for the future.

The report looks at the Commission's productivity, the demographics of its staff, past and future budgetary requirements, and how the agency is managed.

All in all, FY 2000, the report notes, was an extremely successful, even an historic, year for the agency. It launched major structural changes in the bulk power markets with Order No. 2000 and further improved competition in interstate natural gas markets with Order No. 637. It also implemented a new policy for natural gas pipeline authorizations and did all this while completing one of the most ambitious reengineering programs in the federal government.

By 1997, the changes to the energy industry--many induced by the Commission's work in Order Nos. 636 and 888--had become so dynamic and rapid as to call into question the Commission's ability to take action in ways that fit the new market environment. In response, the Commission's two-year FERC First program reshaped the agency and fostered greater adaptability to changes in the industries it regulates. The Commission focused on understanding and monitoring energy markets, improving energy infrastructure and offering new services to the Commission's constituents. The Commission's processes were fundamentally changed by a new emphasis on staff teams, attention to "customer" needs, making faster decisions, and strategic thinking. A new

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Internet-based system for accepting and processing filings electronically and managing the growing workload through better use of information technologies has successfully augmented these process reforms. New electric filing procedures have been successfully tested and a steady phase-out of paper filings is scheduled for the years ahead. The Manage-to-Budget system has made all Commission administrators more cost-conscious in requesting and allocating resources.

The report points out key areas—such as certification of natural gas pipelines, litigated cases, and merger clearances—in which the Commission has reduced its processing time in its drive to provide rapid and effective responses to industry and consumer needs—even as a major reengineering was under way.

Looking ahead, the report notes that if the Commission is to sustain its policy of encouraging competition for consumer benefit—a policy that is central to its aim to build a power system for the 21st century—it must:

- *become the watchdog of market integrity;
- *be increasingly attuned to the effects of the transportation grids on the commodity markets and vice versa;
- *develop the capacity to act faster; and
- *continue adapting its regulation.

Focusing on electric restructuring as the main policy challenge facing the Commission, the report states that the Commission has learned from recent experience that:

- *market rules on bidding, congestion management, and other matters can have dramatic effects on prices and require strong independent oversight;
- *timing of investments, barriers to siting, and inflexible demand can lead to shortages and high prices even in a well-structured market; and
- *political pressure to roll back competitive reforms can arise rapidly and powerfully, so it is important to achieve market reforms quickly.

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A key priority for next year is to develop the Commission's ability to understand market changes and respond quickly. In addition, the Commission and the states must work out an effective way to regulate the electric markets of the future. State and federal authorities are regulating in a single, integrated industry and must continue to coordinate their policy decisions.

In a Policy Postscript, the report identifies the critical importance of advancing the development of regional transmission organizations and resolving the crisis of price volatility in California and elsewhere. The report notes that the financial health of the electric industry requires stable institutions to manage the highly competitive marketplace so that capital markets can measure risks and allocate capital reasonably. Thus the transition to competition must not be prolonged.

The document, which is primarily a report by the Chairman as the Commission's administrative head, is available on the Commission's website at www.ferc.fed.us.